IT 2000™

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Research Bulletin

A Publication from INPUT's Business Integration Programme – Europe

Vol. V, No. 12

August 1994

Vendor Assessment of SI Project Failure

Measuring the degree to which SI projects actually fail is a difficult task. It is subject to individual perceptions and a desire on the part of the participants to minimise difficulties and present as positive a position as possible to the outside world.

INPUT recently interviewed leading SI vendors in Europe with the objective of analysing the degree to which major projects fail. As a group their responses revealed a frank perspective on the degree to which major projects failed to meet the required criteria of *profitability* or *time scale*. The survey has thus allowed a rational assessment of the issue of failure in SI projects. The survey revealed:

- The obvious difficulty of defining what *failure* of a project means
- Some insights into the way vendors view their failure to achieve planned levels of profitability
- The frequency with which projects overrun their planned time scales.

Defining Project Failure

One definition of failure widely perceived in the market is the ultimate abandonment of the project, or at least from the vendor's perspective that the system is never delivered or that the project is not completed. If this is taken as the criteria then clearly there are very few absolute failures. The London Stock Exchange Taurus project and the London Ambulance Control system are exceptional example of the total abandonment of projects.

In this environment most vendors seem to take the view that they must achieve client satisfaction at all costs. Consequently they continue to invest in projects to achieve a result to protect their name and image and

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to attempt to ensure the possibility of on-going revenue streams from that same client. In doing this they are of course significantly impacting their short term planned profitability.

For example one vendor was quoted as saying "we do not have projects which do not meet the client's need", implying that whatever actions necessary, at whatever cost, would be taken to satisfy the client.

Another interesting insight on the definition of *failure* concerned the *business* versus *technical* aspects of large projects. One vendor commented "we have a number of technical successes and business failures in the same project, this is where we gave the customer a *ray gun* when they needed a *pea shooter*". The respondent estimated that as many as one third of all projects fell into this category.

However, given the approach of achieving the project's aims at all costs, at least by the criteria of ultimately satisfying the client, then the most objective measures of project failure can be defined as:

- *Profitability* from the vendor's perspective
- *Time scale slippage* (and its knock-on economic impact) from the client's perspective.

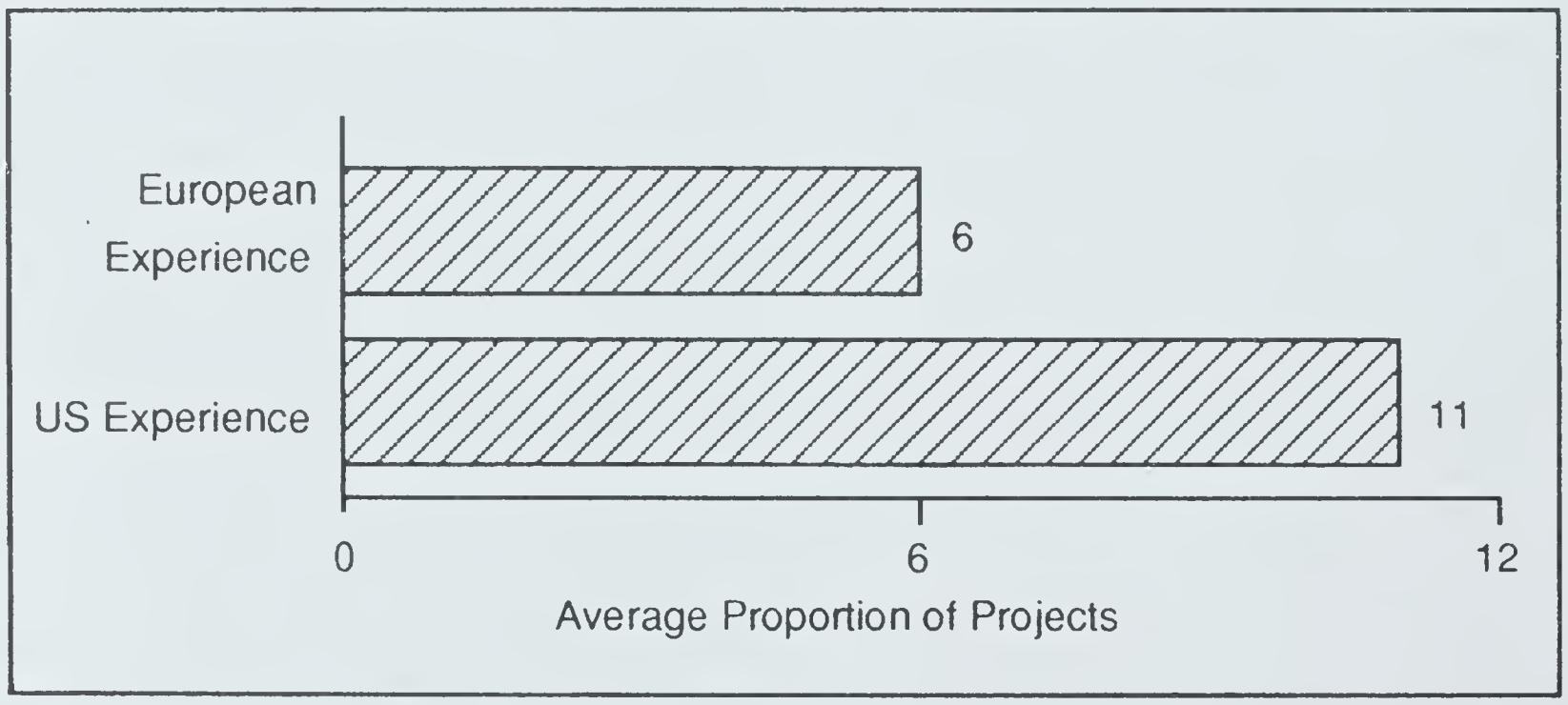
Meeting Planned Profitability Levels

Exhibit 1 provides a summary of the vendor's assessment of lack of profitability as a measurement of project failure.

For comparative purposes this exhibit also includes the results obtained from a similar survey of vendor opinion conducted in the Unites States. In the US, vendors admit to a significantly higher proportion of project failures. However, it should be born in mind that the assessment of what *failure* actually means varied considerably between different respondents to the survey as has already been pointed out above.

Exhibit 1

Failure to Reach Break-Even Profitability for Projects—Vendor Assessment



Source: INPUT

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Exhibit 2

Vendor Perspectives on Project Profitability

PERCENTAGE OF PROJECTS THAT ARE UNPROFITABLE

0%

"All the projects completed to date have made a positive contribution".

"Very few—only some of our smaller projects are unprofitable".

5%

"Around 1 in 20% where we have lost money, but there are plently where the expected profit levels will be somewhat lower than expected".

10%

"10% by number but 15-20% by value. What matters is client satisfaction at all costs".

"10% by volume and 40% by value - we get pain from a small number of large projects".

"10-20% by volume if we are honest".

Source: INPUT

Exhibit 2 represents the range of vendor comments regarding project profitability. These indicate some disturbing findings in relation to the overall profitability of SI type business with indications of widespread failure to meet profitability targets. One vendor admitted that it had on a number of occasions placed surplus people on projects in order to keep them occupied, the inclusion of this type of project doubled the percentage of unprofitable projects from 2% to 4%.

Meeting Planned Project Time Scales

Most vendors are realistic in admitting that a significant proportion of all projects overrun the planned time scale to some extent, however they point out that most do not overrun by very much. It is the minority that overrun significantly that are the real problem. The survey results indicated that:

- The overall volume of projects which overrun is pretty high (around 50%)
- About 5% of all projects fall into the extremely late (over one year) category.

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Large projects which incur serious time delays are, of course, largely accounted for by the *pioneering* type of project where the *rules* have to be invented.

Vendors signalled that their clear aim must be to continuously reduce the incidence of significant overruns. Towards this end one vendor cited an internal initiative to further define the causes of failure and to devise programmes of awareness and training for their project managers in order to be better able to cope with project problems.

Additionally this particular vendor indicated that they were also seeking to adopt policies that would help change the behaviour of the clients so that they might be in a better position to understand what could or could not be done over any particular time scale.

This Research Bulletin is issued as part of INPUT's Business Integration Program—Europe. If you have questions or comments on this profile, please call your local INPUT organisation or Peter Lines at INPUT, 17 Hill Street, London W1X 7FB, +44(0)71 493 9335

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